UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

CLOEREN INCORPORATED,

Plaintiff,

vs. Case No. 09-CV-215-SLC

COMPUTER FORENSIC SERVICES, INC.,

Madison, Wisconsin April 14, 2009 11:00 a.m.

Defendant.

STENOGRAPHIC TRANSCRIPT OF INJUNCTIVE HEARING HELD BEFORE CHIEF JUDGE BARBARA B. CRABB

APPEARANCES:

For the Plaintiff: Reinhart Boerner Van Deuren s.c.

BY: KATIE D. TRISKA

1000 North Water Street, Suite 2100

Milwaukee, Wisconsin 53202

For the Defendant: DeWitt, Ross & Stevens, S.C.

BY: ANTHONY R. VARDA

Two E. Mifflin Street, Suite 600

Madison, Wisconsin 53703

CHERYL A. SEEMAN, RMR, CRR
Official Court Reporter
United States District Court
120 North Henry Street, Room 520
Madison, Wisconsin 53703
1-608-255-3821

1 THE CLERK: Case No. 09-CV-215, Cloeren 2 Incorporated v. Computer Forensic Services, 3 Incorporated, called for an injunctive hearing. May 4 we have the appearances, please? 5 MS. TRISKA: Katie Triska from Reinhart, Boerner and Van Deuren on behalf of the plaintiff, 6 7 Cloeren Incorporated. 8 THE COURT: Thank you. MR. VARDA: Anthony Varda of DeWitt, Ross & 9 10 Stevens, Madison, appearing on behalf of Computer Forensic Services, Inc. 11 12 THE COURT: Thank you. And, Ms. Triska, 13 first of all, do you know anything about the bond? 14 MS. TRISKA: I sent an e-mail to counsel at Frederickson and Byron, who is representing EDI and 15 Oliver, around 9:30 this morning and asked for an 16 17 update. As of that time, they had not posted the bond 18 and I asked to be updated if they did post it, and I 19 have not received any additional communications. 20 MR. VARDA: Your Honor, we contacted them 21 yesterday and they bluntly told us that they wouldn't 22 tell us whether they are going to file it or not. 23 THE COURT: And are you talking about the law 24 firm or EDI? 25 MR. VARDA: The law firm. I think they are

waiting to see what the outcome is here to see if they can get by without posting a bond.

THE COURT: Well, they are in big trouble.

But I think, Mr. Varda, we do have a jurisdictional problem here. I don't know any way that I can exercise any jurisdiction over either the law firm or CFS. If Cloeren -- is that how you pronounce it?

MR. VARDA: Cloeren. I think that sounds right.

MS. TRISKA: Cloeren.

THE COURT: -- if Cloeren were a Wisconsin resident, it might be the recipient of an injury in this state, but it's not even a resident. As I understand it, it's in Texas.

MS. TRISKA: That's correct, Your Honor.

THE COURT: Ms. Triska, do you have any idea how I could exercise jurisdiction over CFS?

MS. TRISKA: Sure. We believe, in this case, there is specific jurisdiction based on four factors. One, CFS accepted an engagement for an action proceeding in the Western District of Wisconsin. The hard drives that were analyzed came from the Western District of Wisconsin, specifically EDI located in Chippewa Falls. CFS was subject to a protective order that was entered in the Western District of Wisconsin.

And interestingly enough, prior to EDI's engagement of CFS, Reinhart engaged CFS for services in that same action.

THE COURT: But paid its bill?

MS. TRISKA: Correct. And in addition, Your Honor, if we had an opportunity for a little discovery, we believe that general jurisdiction would exist as well. I personally know of a matter before the Milwaukee County Circuit Court in which CFS is engaged as the expert witness.

In addition, CFS's website is an interactive website which courts have found before would render the company subject to jurisdiction on that basis alone. If you go to their website, there is links to click for additional information, services that they provide.

And I would be happy to also provide the Court with the engagement agreement Reinhart entered into with CFS in connection with the action proceeding in the Western District of Wisconsin.

THE COURT: So you are saying because CFS was doing a forensic examination for a lawsuit in Wisconsin for EDI?

MS. TRISKA: Correct. The hard drives that are -- a portion of the hard drives at issue here came

from EDI, which is located in Wisconsin. 1 2 THE COURT: Anything else? 3 MS. TRISKA: That's it for now, Your Honor. 4 But again, if we had time for additional discovery, we 5 believe we would be able to establish general jurisdiction in addition to specific jurisdiction. 6 7 THE COURT: You engaged, "you" being Reinhart, engaged CFS in this lawsuit? 8 9 MS. TRISKA: In the action that was pending 10 before Judge Crocker, correct. 11 THE COURT: And it gave you some report on the materials it looked at? 12 13 MS. TRISKA: For the purposes of our 14 engagement, we had asked them to make images of certain hard drives and so that was the extent of 15 16 their engagement. A few months later then, or maybe it was just a month later, EDI engaged them, 17 18 unbeknownst to us. I don't know that they have a 19 conflict system, but that's how the timeline of events 20 occurred. 21 THE COURT: So what you asked them to do is 22 essentially what EDI asked them to do, but you were 23 asking them to look at EDI hard drives, I assume?

MS. TRISKA: Reinhart engaged them to copy

EDI hard drives and then we asked them to ship them to

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another computer company in Texas where the analysis would be done, but we engaged them for the limited purpose of making what they call *forensic copies* that has the metadata contained in it.

THE COURT: So you are saying that because of that because of the work they are doing for a lawsuit in Milwaukee, and the fact that the hardware came from a Wisconsin citizen, EDI, that that means that they are doing, actively doing, business in this state; is that your position?

MS. TRISKA: Yes, that's my position, but both that there is specific jurisdiction based on the previous proceeding in the Western District of Wisconsin, and I outlined the four or five substantial contacts relating to that. And in addition, I believe that there is also general jurisdiction based on their work generally in Wisconsin, related and unrelated to the EDI-Cloeren matter.

THE COURT: Mr. Varda.

MR. VARDA: Yes. I'm learning new things here this morning that weren't in the paperwork filed. My understanding was that if that was the argument they wanted to make, it should have been in the paperwork so I could at least have talked to my clients about it.

However, from what little I heard here this morning, the hard drives were sent to Minnesota. We were not supposed to give them anything back out of that. We weren't sending anything into Wisconsin.

The hard drives from that earlier case were sent to Minnesota and we then, my client sitting in Minnesota, sent something to Texas for them, still didn't come into Wisconsin.

There is no claim that they were supposed to -that they contractually agreed to come and testify in
Wisconsin and be subject to jurisdiction. They are
sitting up in Minneapolis primarily dealing with a
Minneapolis law firm in this case. What is at issue
here are the materials from the contract with the
Frederickson law firm, and that's it.

We have offered to remove the forensic copy, the images, of the hard drives from Cloeren from the sale. We have offered to do that.

THE COURT: And explain to me what that would mean.

MR. VARDA: That means the images that we created that can then be analyzed for forensic purposes out of their hard drives, we have agreed to take that out of the sale. We are not going to sell those.

THE COURT: Okay. So all of the materials that EDI wanted to produce will not be in the sale.

Are they also removed from the hard drive so that somebody looking at the hard drive could no longer see those images?

MR. VARDA: We are just going to give them a hard drive back. They are hard drives. We will give them back to them.

THE COURT: So what are you selling?

MR. VARDA: We are selling the images and hard drives we received from Extrusion Dies

Industries, the other side of the lawsuit.

THE COURT: But weren't those from Cloeren?

MR. VARDA: Well, that's the question, was there something on their hard drives that came from Cloeren that was privileged or a trade secret, and nobody knows. That was what the lawsuit was about, but they settled the lawsuit.

But getting back to jurisdiction -- and frankly, and venue, because we think it should be dismissed for lack of venue here -- I mean, there is nothing substantially related in the Western District. Our work was completely outside of court, wasn't coming to court. It's up in Minnesota. They never ventured into Wisconsin to do anything. All the witnesses,

everything, is up in Minnesota.

THE COURT: They must have solicited some business.

MR. VARDA: Well, they solicit generally, like most people do, you know. Our law firm, for example, has a website that will go anywhere. So, yes, you do have that with the Internet, virtually any company now does. But I don't think that completely eliminates all notions of fundamental fairness in where venue should be and jurisdiction.

This was work done exclusively in Minnesota. We never received any protective order. Nobody served it on us. They weren't even aware of the protective order. I don't know if the protective order was something simply stipulated by the parties and signed by the court based on the stipulation or it was a protective order that the court rendered a decision on based on evidence that there was something to be protected, two different categories of protective orders.

THE COURT: We are kind of picky in this court about making lawyers show that there is something that needs protection. Now, I haven't looked exactly at the one that was signed in the other lawsuit, but we do send them back regularly, once a

week probably, saying "Please tell us -- you can't just come in here and say you need a protective order. You have to tell us why."

MR. VARDA: I wish the state court had the same attitude. But anyway, I think there is a serious problem with jurisdiction. I mean, they are from Texas. You know, the tenuous connection here is that the hard drive came from here, but they sent it to a different state for work that was never even going to come back to them, so we are not sending our work product into Wisconsin in either of these cases. It's not a contract for goods to be used in Wisconsin. Our contract was with the Frederickson law firm and we would have just turned it over to them.

THE COURT: Although I thought from what Ms. Triska said that the earlier work, the forensic images, were returned to Wisconsin.

MR. VARDA: No. They were sent to Texas. What she said is they went to Texas for analysis.

MS. TRISKA: If I may clarify, in fact the hard drives were sent to Reinhart for us to send to Texas.

THE COURT: But not -- okay. This is a strange case. It seems so bizarre to me that a company granted -- it seems to have a very legitimate

claim against the law firm and EDI for not paying a bill that it contractually agreed to pay, but the idea that it thinks it can sell somebody else's private data --

MR. VARDA: Well, apparently, and I'm not a Minnesota lawyer, but apparently this is straight down-the-book Uniform Commercial Code in Minnesota, they can go sell it. You can see, however, that it is also a strong leverage point to getting paid.

And of course the Frederickson firm could pay the bill under protest and sue, claiming it was an excessive bill, if they wanted to stop this. But apparently they would rather -- what they did up there was they brought a lawsuit on behalf of their clients, representing their clients, asking for an injunction and then they had to put the \$125,000 bond in to keep it from being sold.

So I think the judge up there did rough justice to get collateral, cash collateral, in lieu of this, because this is the only collateral they had. It does seem a bit strange, but --

THE COURT: You know, my understanding of the Uniform Commercial Code is if I take a car in to Joe Smith's Auto Repair; he does the repair, I don't pay for it; he can keep the car.

MR. VARDA: He can sell the car if he follows the procedure, which is how this got --

THE COURT: I didn't think that if I took my neighbor's car in or the car I stole in that he could sell it.

MR. VARDA: No. What's happening here -- you are misconstruing what we are selling. We are not selling -- we are not selling the hard drives and so on. We are selling the images that we created. Our work product is going to be sold.

THE COURT: But aren't those images -- and if you were doing the work you were contracted to do, those are images showing e-mails from Joe to Tom and Sam to Sarah about what Mr. Oliver was doing and what he knew and all these secrets that he knew.

MR. VARDA: Well, the Frederickson law firm was his agent for that purpose. It would be as though your neighbor contracted with you to take the car in and you took the car in on behalf of the neighbor and with the neighbor's permission and then you didn't pay for it, and neither did the neighbor, and the mechanic went out and sold it.

THE COURT: Yeah. But here, Frederickson, first of all, blew it by not handing over the protective order making sure that CFS was aware of the

order.

MR. VARDA: That's true.

THE COURT: But then what about the criminal penalties that are lurking out there for what CFS plans to do?

MR. VARDA: The fundamental problem here is that no one has actually made a determination that any theft of trade secrets or transfer of trade secrets have occurred. I have been in a lot of lawsuits where people claim things to be trade secrets and when you get down to it, they simply aren't.

THE COURT: There is always the possibility.

MR. VARDA: There is a host of possibilities. The interesting thing here is that in settling their lawsuit between the parties, apparently they left, whatever Extrusion Die Industries and Mr. Oliver allegedly took, they left them in possession of that material and their selling it apparently anticipates they will just keep it.

I guess, because they settled, they don't want to pay the expense of determining whether they actually stole anything or not. We really don't know whether anything got stolen or not at this point and they have decided not to find out and that's how they settled their lawsuit.

So that brings us all full circle around to this was just the expert hired in Minneapolis to do some work in Minneapolis that was supposed to be followed up on elsewhere by other people and they are hauled in to court both here and Minneapolis. There is an injunction entered in Minneapolis.

But as I noted earlier, I think what's going on is they are trying to see if they can get by without posting the bond in Minneapolis. If this court decides not to issue a temporary restraining order, I have every confidence in the world that the Frederickson firm will see it possible to actually issue their bond, get their bond in.

We did suggest to Cloeren that we would be happy to sell it to them, too, and they can settle this between them. They haven't finished their final settlement document as between the two of them and they can resolve it as part of that, if they want.

But this is the only collateral we have and, you know, apparently under Minnesota law, it's perfectly possible to go and sell it. We don't know of any trade secrets that are actually involved here.

So I don't think the sale is going to happen, regardless either way of what this court does, but I see serious problems in both jurisdiction and venue.

And the alternative -- the option on a venue question would be to send it to Minneapolis so it can at least be resolved in the same place where all witnesses are, or dismissal. If there is no venue, then we can dismiss here and then they can refile up in Minnesota. I suppose they would have it filed almost immediately.

But as I said, we are pulling -- the materials that they sent us are not at issue here, we are taking that out, so I really don't understand how they have standing to object to our selling what belongs to Extrusion Die Industries without some evidence or proof that it also contains their misappropriated information or trade secrets. And at this point, we don't know that it is. And if they could settle their lawsuit without solving that question, I'm skeptical, quite honestly.

MS. TRISKA: May I respond, Your Honor?
THE COURT: You may.

MS. TRISKA: Thank you. Attorney Varda referenced that Cloeren's data won't be sold at sale. The notice of sale, as it's currently drafted, still includes the Cloeren hard drives. We have received nothing in writing assuring us that the Cloeren hard drives won't be sold.

Regardless of the Cloeren hard drives though, we

are still concerned about the EDI hard drives. Based on the limited discovery we did in the other action, we still have reason to believe that there is Cloeren data on the EDI hard drives.

CFS was engaged to determine whether or not there was Cloeren. They did about \$90,000 of work and so CFS is probably in the best position to let us know whether Cloeren data is on these EDI hard drives or not. And to date, CFS has not been willing to represent that there is no Cloeren data on the EDI hard drives.

And then just two other comments, Your Honor:
Again, the website, by itself, is enough. Several
courts have recognized that just a website is enough
for general jurisdiction. If this court is still not
sure on the personal jurisdiction issue, I would
request additional time to engage in discovery because
I have no doubt that through additional discovery, we
would be able to establish general jurisdiction. But
regardless, I believe specific jurisdiction still
exists in this matter.

And then finally, with respect to venue, while it may be that Minnesota is another option, there is no requirement that we file in the best court so long as it meets the requirements for venue, and we do in the

Western District.

MR. VARDA: Your Honor, I want to say in open court, and binding upon my client, that we are not going to sell Cloeren hard drives nor the image prepared from them, period. And having said that in open court, I believe it is binding and I have assurance that they are not going to do that. All they have to do is withdraw it at the time of sale. They just cross it off the list.

THE COURT: Let me understand. The hard drives will not be sold?

MR. VARDA: The hard drives from Cloeren will not be sold. We also prepared an image of those hard drives --

THE COURT: Okay.

MR. VARDA: -- so there are three points that we have to take out. So everything we received from them will not be sold. We will hang on to that out of the sale.

THE COURT: So what's left?

MR. VARDA: It would be the images -- hard drives of Extrusion Dies Industries, what they provided for us. If they want to know the answer of what's on those, if they want to know what's on those drives, they can come and buy it at the sale, then

they will have an answer.

THE COURT: Wait. Now, I'm not that savvy about what's what, but you are saying that nothing of the hard drives that Cloeren produced to EDI goes to CFS for forensic analysis, the forensic images that CFS produced from the Cloeren hard drives, and then the third thing --

MR. VARDA: Well, it's three because there are two hard drives --

THE COURT: Oh.

MR. VARDA: -- so one, two and then the image.

THE COURT: Okay. So you are saying that any hard drives that were in Extrusion Dies' possession that went to CFS for analysis --

MR. VARDA: Correct.

THE COURT: -- are not excluded from the sale?

MR. VARDA: Are not excluded. Mr. Oliver and Extrusion Dies provided us hard drives from which we created these images, these forensic images. They will be the exclusive subject of the sale. They are the property of those two entities.

You know, it's kind of a chicken or the egg situation. No one can prove whether anything got

taken until somebody pays the bill to get the information, but nobody wants to pay the bill, but they still want to argue that something got taken.

It's a strange --

THE COURT: In other words, Extrusion Dies' hardware may have all kinds of Cloeren information if, as Cloeren says, Mr. Oliver transferred it from one to the other?

MR. VARDA: Correct. But Mr. Oliver could just as well have had all of his grandchildren's pictures on his computer at Cloeren and transferred all of them, rather large files, over to his new computer. That wouldn't be a trade secret of Cloeren's. He could also have downloaded forms, J-Tech files for catalogues and all sorts of other stuff that he normally used in business that are taken off a series of different websites and saved himself a lot of time. He could have transferred those over and that wouldn't be a trade secret.

Just because somebody transferred something -- I just had to transfer a bunch of stuff between computers because I had a crash -- that doesn't mean that there is anything in the transfer. People do that all the time.

So we are kind of back to the funny situation is

nobody wants to pay for it, but nobody wants -- the only way you are going to know whether or not there is anything on that computer is to pay us, but nobody wants to do that, so we are in a very strange position here.

I do believe that there is no venue here. We were not -- even though their dispute is in the Western District of Wisconsin, we didn't do anything. What our dispute here with the materials and everything that we have, no portion of that arose in the Western District of Wisconsin. It has nothing to do with the Western District of Wisconsin. It was all in Minnesota. Stuff was sent to Minnesota. The Frederickson law firm is in Minnesota. They hired us. We have a contract with them.

That earlier contract, none of this relates to anything done under that earlier contract. So nothing in this particular dispute -- the sale is going forward in Minneapolis. No portion of this cause of action -- if we stole some trade secrets from what they sent us, that happened in Minnesota.

Nothing happened here, so there is no venue, and so you can either transfer it or dismiss it. And I think the preference is dismissal because this is a sophisticated group, they knew enough to bring it in

Minnesota, and they should have brought it in

Minnesota if they didn't want to run into a problem

with venue.

They have not -- you know, for purposes of this motion, they were supposed to provide evidence demonstrating jurisdiction and venue in the Western District, and I don't think they have done that. We have heard things here today, but we don't have an affidavit, we don't have any support, nothing in the paperwork.

So I think this is one that, you know, should be dismissed for either lack of jurisdiction or venue.

And as I said before, I think this is a game of chicken by the Frederickson law firm and I think we will see what happens.

THE COURT: Withstand the poultry metaphor.

MR. VARDA: Yeah.

THE COURT: Ms. Triska, is there anything more you would like to add?

MS. TRISKA: Yes, Your Honor. Just to try to clarify, in addition to the EDI hard drive, there is also Gary Oliver's personal hard drive. So regardless of whether he misappropriated the trade secrets on EDI's hard drives, there is still the potential for them to be up on his personal hard drives. And again,

based on discovery that was done in the prior action, we have reason to believe that.

Attorney Varda mentioned there is all these other possibilities to explain why he was on transferlargefiles.com websites, but there is still the very real possibility that he transferred Cloeren's trade secrets, and the risk to Cloeren is significant.

Going forward with the sale of EDI's drives, regardless of Cloeren's, there is still the very real potential that going forward with the EDI's sale of hard drives will put Cloeren's trade secrets at risk.

And if there is any additional evidence or evidence that I mentioned today that wasn't in any of my filings, I would be happy to supplement that as soon as possible, within an hour, if that would assist the Court with the jurisdictional question.

THE COURT: I think I'm prepared to rule. I just don't think that there is jurisdiction in this district and I don't think that venue would be proper here either. CFS has done this work in Minnesota.

Minnesota courts are dealing with it. I don't think that it's appropriate for this court to get into it given the real questions about jurisdiction and venue, which I think are pretty much in favor of CFS. It's

possible that the website would give this court jurisdiction, but I'm queasy enough about it not to adopt that viewpoint.

I think it probably is a game of chicken, that this law firm does not want to pay this money. EDI doesn't want to pay the money, now that it's settled the lawsuit and it doesn't need the materials anymore. But I think the law firm probably realizes that the stakes were or are high enough that if it doesn't pay this and get these materials out of there, it could really expose itself to some serious expenses either in a malpractice lawsuit or something else.

It's a very strange case and I don't know what lesson to draw from it other than maybe people should pay their bills. In this economy, that's not always what's going to happen.

But I'm just not -- I would not be comfortable exercising jurisdiction over CFS in this case and issuing any kind of injunctive relief to the plaintiff, Cloeren, so the motion is denied. And Cloeren will get back its forensic images and its hard drives?

MR. VARDA: Correct, Your Honor. The story is even worse. Apparently they sent an associate out to hire a forensic firm and it might not have reported

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quite how expensive they said it was going to be.
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             THE COURT: I gathered that.
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             MR. VARDA: You can just see how this
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   happened.
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             THE COURT: But it's still of their agent.
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             MR. VARDA: Thank you, Your Honor.
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             MS. TRISKA: Thank you.
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             THE COURT:
                          Thank you.
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          (Adjourned at 11:25 a.m.)
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I, CHERYL A. SEEMAN, Certified Realtime and Merit Reporter, in and for the State of Wisconsin, certify that the foregoing is a true and accurate record of the proceedings held on the 14th day of April, 2009, before the Honorable Barbara B. Crabb, Chief Judge of the Western District of Wisconsin, in my presence and reduced to writing in accordance with my stenographic notes made at said time and place. Dated this 21st day of July, 2009.

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/s/

Cheryl A. Seeman, RMR, CRR Federal Court Reporter